



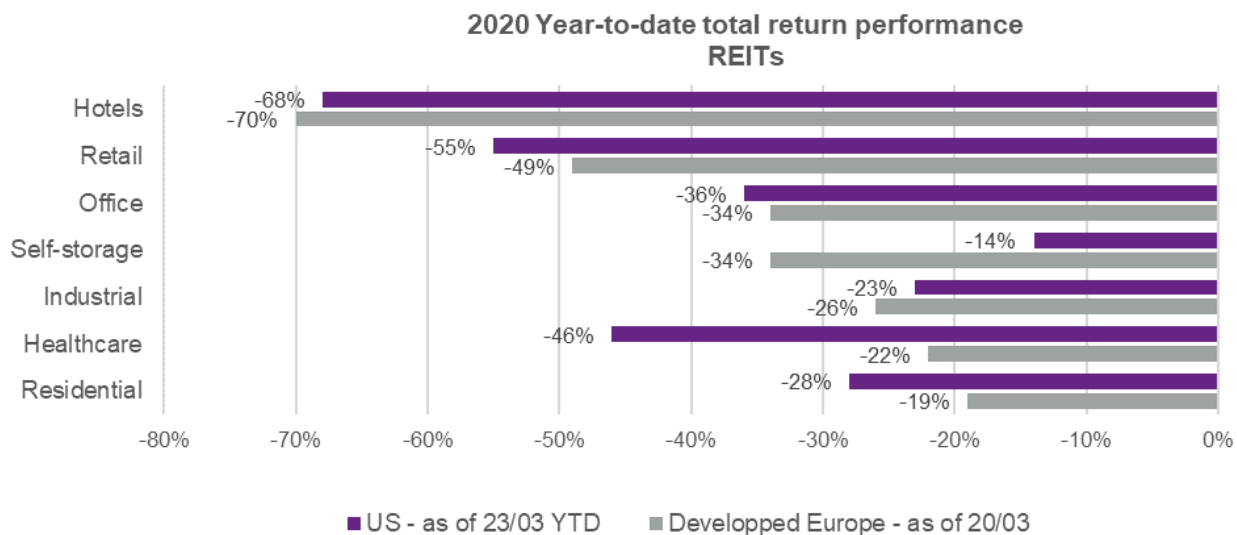
Covid-19:

What is the impact on Commercial Real Estate (CRE) Debt in Europe?

The full spectrum of Real Estate sectors and geographies has been impacted by the Covid-19 crisis; this is felt heaviest by certain sectors such as Hotels & Leisure and Retail, which are on the frontlines.

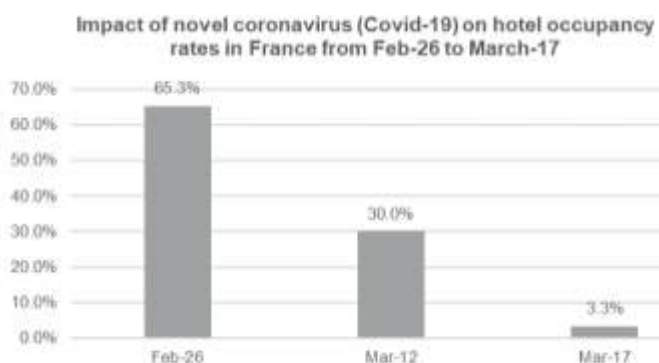
Industry Immediate Impacts

First “immediate” figures of the impact on the CRE Market



Graph 1 -Source: EPRA, NAREIT, Cushman & Wakefield, AEW Research & Strategy, information as of March 2020.
Note: Past performance is no guarantee of future results and may evolve over time.

Hotels and hospitality



Graph 2-Source Statista, STR CoStar, Information as of March 17 2020.

The impact of travel restrictions, event cancellations and apprehension to travel was immediately felt across the hospitality sector. In the short term, occupancy rates will continue to fall. For example, the occupancy rates in French hotels fell from 65.3% on February 26 to 3.3% on March 17.

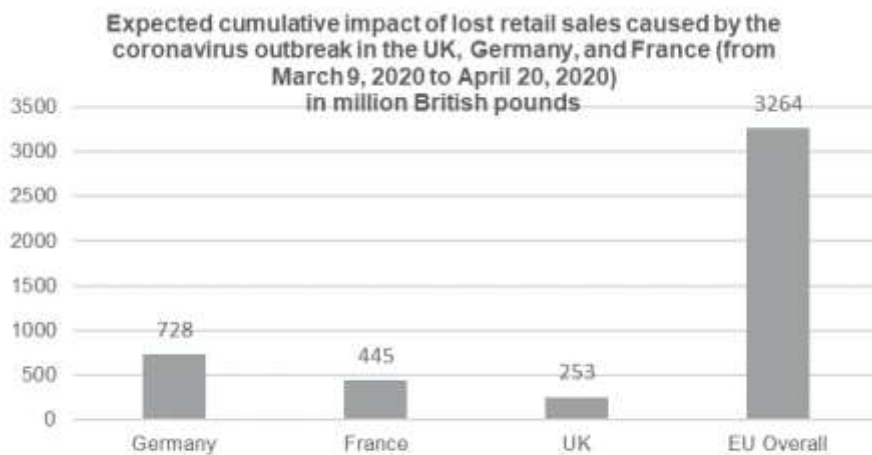
As containment is expected to last across Europe, occupancy rates will remain close to zero. Post confinement, the recovery will take time, especially in places with a high proportion of international visitors, while

locations accessible to a domestic clientele by car or public transport may benefit.

Retail markets

Global retailers must prepare to navigate this period of elevated cash flow risks and increased operational costs, arising from the slump in consumer demand and disruption to supply chains. Protecting cash flow remains crucial for all retailers, particularly for those with thin profit margins. **The hardest hit may seek temporary rent relief from landlords.**

According to a study on the projected impact of Covid-19 on retail sales in Europe, between March 9, 2020 and April 21, 2020, **retailers are expected to face a loss of £3.26 billion** due to disruptions caused by the current outbreak.



Of the three European countries shown here, **Germany is expected to suffer the most** with £728 million lost during this period.

Retailers with robust infrastructure to fulfil online orders could be longer-term beneficiaries, placing a greater emphasis on the shift towards a flexible omnichannel retail model.

Graph 3- Source: Statista, New York Times, Zencargo, information as of April 2020.

Industrial and logistics markets

Disruption to global supply chains is the main effect on the industrial and logistics sector. Reduced activity at major gateway ports and airports is resulting in falling utilisation rates and idle resources. **The outbreak will likely elevate the issue of supply chain resilience and risk mitigation.**

This outbreak may **accelerate the use of automation and robotics in operations** and reduce the sector's reliance on labour.

The move to online shopping, especially for groceries, could also become more permanent and, in turn, **boost demand for logistics** expertise.

Office markets

The outbreak could put **greater pressure on markets which are already in a late stage of their cycle.** This would create the potential for delays in investment activity and softer rental growth than previously forecast. An increase in remote working is likely to reduce office utilisation rates, making landlords exposed to short-term leases the most vulnerable.

Over the longer term, the outbreak will probably fast track the adoption of remote working and investment in collaborative technologies.

Industry Final thoughts

Although it is easy to concentrate on the short-term economic impact of Covid-19, **the longer-term societal and real estate impacts should not be overlooked**. The impact and aftermath will change the way we live and work, potentially leading to new operational models. **Could it prove to be the catalyst for certain secular shifts?**

Office – increased **remote working** and a greater focus on **health, well-being and productivity**.

Retail – the normalisation of **online grocery shopping**, forcing a **change in retailer behaviour**.

Industrial – the **de-globalisation of supply chains** to mitigate risk.

Sustainability – changed **perception of travel** and renewed **emphasis on sustainable** practices.

Technology – increased **integration of technology**, particularly PropTech (property technology) and MedTech (medical technology), impacting all aspects of life and business.

What about previous crisis?

As shown in the table below, the European office market was significantly impacted during the previous economic crises.

- **Capital values of offices have dropped by around 25%** in most markets over 2001-03. The same trend was observed over 2007-09 despite greater discrepancies between countries.
- **Office markets recorded severe reductions in take-up of around 35%** on average, while vacancy rates increased sharply (particularly in Spain).
- However, **prime yields expansion remained limited**, both over 2001-03 and 2007-09, as the decrease in capital values was partly offset by concomitant drops in rental values.

		OFFICE								
		Paris	Germany	Spain	Italy					
		Paris	Germany	Spain	Italy	Paris	Germany	Spain	Italy	
Capital value (€/m ²)	2001Q1	12879	8836	7284	8036	2007Q3	17255	6763	9953	9982
	2003Q3	9442	6575	5241	8793	2009Q4	10455	6377	5174	9610
	Evolution (%)	-26.7	-25.6	-28.0	9.4	Evolution (%)	-39.4	-5.7	-48.0	-3.7
Take-up (000m ²)	2001Q1	624	167	279	120	2007Q3	708	150	351	141
	2003Q3	387	102	201	75	2009Q4	448	94	122	97
	Evolution (%)	-38.0	-38.9	-28.0	-37.5	Evolution (%)	-36.7	-37.3	-65.2	-31.2
Vacancy rate (%)	2001Q1	2.4	3.5	1.7	5.9	2007Q3	4.9	10.8	6.1	8.2
	2003Q3	5.9	10.1	7.7	6.9	2009Q4	6.8	11.6	11.1	10.5
	Evolution (bp)	350	660	600	100	Evolution (bp)	190	80	500	230
Rents (€/sqm)	2001Q1	950	396	428	383	2007Q3	738	345	435	520
	2003Q3	752	330	311	463	2009Q4	630	332	307	495
	Evolution (%)	-20.8	-16.7	-27.3	20.9	Evolution (%)	-14.6	-3.8	-29.4	-4.8
Prime yields (%)	2001Q1	5.6	4.75	5.75	4.73	2007Q3	4.8	4.9	4.25	4.5
	2003Q3	6.25	4.93	5.88	5.4	2009Q4	5	5.3	6.5	5.4
	Evolution (bp)	65	18	13	67	Evolution (bp)	20	40	225	90

Graph 4- Source : Natixis, CBRE, information as of April 2020.

Many **expect a drop of around 25-35% in 2020** with limited impact on vacancy rates or rent prices. Most scenarios are, more or less, based on a strong value correction during the crisis and a **rebound in 2021**.

Such explanations derive from several factors, such as financial support packages announced by European governments, shortfalls in existing capacities

On the other hand, **some analysts don't expect such a fast rebound in 2021**. This is due to aspects such as higher vacancy rates or pressure on rents due to the difficult financial situation of tenants, as well as corrections of anticipated yields from investors.

What about Commercial real estate debt: cash flow and value?

"Expect the best, be prepared for the worse"

Current market situation:

The immediate concern is **the cash situation of borrowers**, especially in the Hotel & Leisure, and Retail sectors. To date, a limited number of tenants have asked for non or deferred payments of their rent. Nevertheless, **figures are moving fast** especially when everyone expects longer confinement periods across Europe. One can reasonably expect **some deferred payments to the principal and/or payment of interest for the coming three to six months**.

So far, nobody anticipates a confinement period over six months...

But if worse comes to worse, debtors will have to envisage **two options**:

Option 1: restructuring the debt to allow longer tenor, especially for bullet loans maturing in 2020 or beginning 2021.

Option 2: the use of their security package, pledge on the assets & shares of the borrowers to either reimburse the debt or hold the assets while waiting for better market conditions.

The positive aspect for lenders is that, if the "expected" value corrections strongly impact the equity part of the financing, the Loan To Value based on those drops should not exceed 100%. This would therefore leave room for lenders to recover their investment.

Potential outcomes and points of attention:

As of today, we anticipate three likely outcomes:

- 1) 2020 market volume of new transactions will decrease** (some financing packages are already delayed) **compared to 2019 but we expect a shift of deals from 2020 to 2021**, as this was observed during the previous crisis.
- 2) Pricing will increase** due to (i) **increase in cost of liquidity** and (ii) update of **risk assessment** on some sectors.
- 3) Some downgrades for the transactions or sectors most at risk and potentially some defaults.**

We are closely monitoring the evolution of the following factors:

- **The lock-down situation** around the world, especially in the US but also in developing countries.
- National and international (EU, G7, G20) **economic support plans especially regarding rental payments policies**.
- **The liquidity situation** for corporates and banks.
- **Sovereign bond ratings and pricing**.

We are also **paying attention to the financial situation** of the biggest **Real Estate Funds in Equity**.

Disclaimer: IMPORTANT INFORMATION

Information in this document is as of April 3 2020 and is susceptible to change.

Ostrum Asset Management - 43, avenue Pierre Mendès-France – CS 41432 – 75648 Paris cedex 13 France – Phone: +33 1 78 40 80 00

Limited company with a share capital of 27 772 359 euros – Trade register n°525 192 753 Paris – VAT: FR 93 525 192 753

Regulated by AMF under n°GP GP-18000014

Register office: 43, avenue Pierre-Mendès France – 75013 Paris – www.ostrum.com

Information in this document is as of April 3 2020 and is susceptible to change.

This document (the "Document") is being circulated as an information-only document and does not constitute an offer, a proposal, a solicitation or a sales promotion to investors to invest in any funds or any compartment of any funds described herein (the "Fund") nor does it form the basis of, or constitute, any contract. This Document has been prepared for indicative purposes only and remains subject to formal approvals by Ostrum Asset Management.

This Document is highly confidential, is the property of Ostrum Asset Management and should not be transmitted, published or reproduced, in whole or in part, nor should its contents be provided to any person other than its original addressee(s) and such person's professional advisers who are directly concerned with such person's decision regarding the investment opportunity described herein, without the prior written consent of Ostrum Asset Management.

Any prospective investors should note that the information contained in this Document is preliminary and is subject to updating and amendment.

While the information contained in this Document is believed to be accurate, Ostrum Asset Management expressly disclaims any and all liability for any representations, expressed or implied, with respect to this Document or any other written or oral communication to any interested party in the course of the preparation of information concerning the Fund. Prices, margins and fees are deemed to be indicative only and are subject to changes at any time depending on, inter alia, market conditions. Past performances and simulations of past and future performances are not a reliable indicator and therefore do not anticipate future results.

Information contained in this Document is based on present circumstances, intentions and beliefs and may require subsequent modifications. No responsibility or liability is accepted by Ostrum Asset Management nor any of their affiliates nor their respective directors, officers, partners, employees, representative, agents or relevant boards or board members towards any person for errors, misstatements or omissions in this Document or, concerning any other information or materials, for the adequacy, accuracy, completeness or reasonableness of such information or for any financial loss or decision taken or not taken on the basis of the information disclosed in this Document.

This Document in no way constitutes an offer or a sales promotion to the public in the jurisdictions in which such an offer of public sale is illegal. This Document in no way constitutes an offer or a sales promotion to a person regarding whom it would be illegal to make such an offer. This Document may not be used as an offer or a sales promotion in countries or in conditions where such offers or promotions have not been authorized by the competent authorities.

Additional notes:

This material has been provided for information purposes only to investment service providers or other Professional Clients, Qualified or Institutional Investors and, when required by local regulation, only at their written request. This material must not be used with Retail Investors.

In the E.U. (outside of the UK and France): Provided by Natixis Investment Managers S.A. or one of its branch offices listed below. Natixis Investment Managers S.A. is a Luxembourg management company that is authorized by the Commission de Surveillance du Secteur Financier and is incorporated under Luxembourg laws and registered under n. B 115843. Registered office of Natixis Investment Managers S.A.: 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. **Italy:** Natixis Investment Managers S.A., Succursale Italiana (Bank of Italy Register of Italian Asset Management Companies no 23458.3). Registered office: Via San Clemente 1, 20122 Milan, Italy. **Germany:** Natixis Investment Managers S.A., Zweigniederlassung Deutschland (Registration number: HRB 88541). Registered office: Im Trutz Frankfurt 55, Westend Carrée, 7. Floor, Frankfurt am Main 60322, Germany. **Netherlands:** Natixis Investment Managers, Nederlands (Registration number 50774670). Registered office: Stadsplateau 7, 3521AZ Utrecht, the Netherlands. **Sweden:** Natixis Investment Managers, Nordics Filial (Registration number 516405-9601 - Swedish Companies Registration Office). Registered office: Kungsgatan 48 5tr, Stockholm 111 35, Sweden. **Spain:** Natixis Investment Managers, Sucursal en España. Serrano n°90, 6th Floor, 28006, Madrid, Spain. **Belgium:** Natixis Investment Managers S.A., Belgian Branch, Louizalaan 120 Avenue Louise, 1000 Brussel/Bruelles, Belgium.

In France: Provided by Natixis Investment Managers International – a portfolio management company authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009, and a public limited company (société anonyme) registered in the Paris Trade and Companies Register under no. 329 450 738. Registered office: 43 avenue Pierre Mendès France, 75013 Paris.

In Switzerland: Provided for information purposes only by Natixis Investment Managers, Switzerland Sàrl, Rue du Vieux Collège 10, 1204 Geneva, Switzerland or its representative office in Zurich, Schweizergasse 6, 8001 Zürich.

In the British Isles: Provided by Natixis Investment Managers UK Limited which is authorised and regulated by the UK Financial Conduct Authority (register no. 190258) - registered office: Natixis Investment Managers UK Limited, One Carter Lane, London, EC4V 5ER. When permitted, the distribution of this material is intended to be made to persons as described as follows: in the United Kingdom: this material is intended to be communicated to and/or directed at investment professionals and professional investors only; in Ireland: this material is intended to be communicated to and/or directed at professional investors only; in Guernsey: this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Guernsey Financial Services Commission; in Jersey: this material is intended to be communicated to and/or directed at professional investors only; in the Isle of Man: this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Isle of Man Financial Services Authority or insurers authorised under section 8 of the Insurance Act 2008.

In the DIFC: Provided in and from the DIFC financial district by Natixis Investment Managers Middle East (DIFC Branch) which is regulated by the DFSA. Related financial products or services are only available to persons who have sufficient financial experience and understanding to participate in financial markets within the DIFC, and qualify as Professional Clients or Market Counterparties as defined by the DFSA. No other

In Japan: Provided by Natixis Investment Managers Japan Co., Ltd., Registration No.: Director-General of the Kanto Local Financial Bureau (kinsho) No. 425. Content of Business: The Company conducts discretionary asset management business and investment advisory and agency business as a Financial Instruments Business Operator. Registered address: 1-4-5, Roppongi, Minato-ku, Tokyo.

In Taiwan: Provided by Natixis Investment Managers Securities Investment Consulting (Taipei) Co., Ltd., a Securities Investment Consulting Enterprise regulated by the Financial Supervisory Commission of the R.O.C. Registered address: 34F., No. 68, Sec. 5, Zhongxiao East Road, Xinyi Dist., Taipei City 11065, Taiwan (R.O.C.), license number 2018 FSC SICE No. 024, Tel. +886 2 8789 2788.

In Singapore: Provided by Natixis Investment Managers Singapore (name registration no. 53102724D) to distributors and institutional investors for informational purposes only. Natixis Investment Managers Singapore is a division of Ostrum Asset Management Asia Limited (company registration no. 199801044D). Registered address of Natixis Investment Managers Singapore: 5 Shenton Way, #22-05 UIC Building, Singapore 068808.

In Hong Kong: Provided by Natixis Investment Managers Hong Kong Limited to institutional/ corporate professional investors only.

In Australia: Provided by Natixis Investment Managers Australia Pty Limited (ABN 60 088 786 289) (AFSL No. 246830) and is intended for the general information of financial advisers and wholesale clients only .

In New Zealand: This document is intended for the general information of New Zealand wholesale investors only and does not constitute financial advice. This is not a regulated offer for the purposes of the Financial Markets Conduct Act 2013 (FMCA) and is only available to New Zealand investors who have certified that they meet the requirements in the FMCA for wholesale investors. Natixis Investment Managers Australia Pty Limited is not a registered financial service provider in New Zealand.

In Latin America: Provided by Natixis Investment Managers S.A.

In Uruguay: Provided by Natixis Investment Managers Uruguay S.A., a duly registered investment advisor, authorised and supervised by the Central Bank of Uruguay. Office: San Lucar 1491, Montevideo, Uruguay, CP 11500. The sale or offer of any units of a fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627.

In Colombia: Provided by Natixis Investment Managers S.A. Oficina de Representación (Colombia) to professional clients for informational purposes only as permitted under Decree 2555 of 2010. Any products, services or investments referred to herein are rendered exclusively outside of Colombia. This material does not constitute a public offering in Colombia and is addressed to less than 100 specifically identified investors.

In Mexico Provided by Natixis IM Mexico, S. de R.L. de C.V., which is not a regulated financial entity, securities intermediary, or an investment manager in terms of the Mexican Securities Market Law (Ley del Mercado de Valores) and is not registered with the Comisión Nacional Bancaria y de Valores (CNBV) or any other Mexican authority. Any products, services or investments referred to herein that require authorization or license are rendered exclusively outside of Mexico. While shares of certain ETFs may be listed in the Sistema Internacional de Cotizaciones (SIC), such listing does not represent a public offering of securities in Mexico, and therefore the accuracy of this information has not been confirmed by the CNBV. Natixis Investment Managers is an entity organized under the laws of France and is not authorized by or registered with the CNBV or any other Mexican authority. Any reference contained herein to "Investment Managers" is made to Natixis Investment Managers and/or any of its investment management subsidiaries, which are also not authorized by or registered with the CNBV or any other Mexican authority.

The above referenced entities are business development units of Natixis Investment Managers, the holding company of a diverse line-up of specialised investment management and distribution entities worldwide. The investment management subsidiaries of Natixis Investment Managers conduct any regulated activities only in and from the jurisdictions in which they are licensed or authorized. Their services and the products they manage are not available to all investors in all jurisdictions. It is the responsibility of each investment service provider to ensure that the offering or sale of fund shares or third party investment services to its clients complies with the relevant national law.

The provision of this material and/or reference to specific securities, sectors, or markets within this material does not constitute investment advice, or a recommendation or an offer to buy or to sell any security, or an offer of any regulated financial activity. Investors should consider the investment objectives, risks and expenses of any investment carefully before investing. The analyses, opinions, and certain of the investment themes and processes referenced herein represent the views of the portfolio manager(s) as of the date indicated. These, as well as the portfolio holdings and characteristics shown, are subject to change. There can be no assurance that developments will transpire as may be forecasted in this material. Past performance information presented is not indicative of future performance.

Although Natixis Investment Managers believes the information provided in this material to be reliable, including that from third party sources, it does not guarantee the accuracy, adequacy, or completeness of such information. This material may not be distributed, published, or reproduced, in whole or in part. All amounts shown are expressed in USD unless otherwise indicated.